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FEDERAL RESERVE NOTES

INFLATION AND SPECULATION
DEFLATION AND HARD TIMES

BY
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CHAPTER I

THE MAIN ISSUE

In writing about the general circulation of the currency and the part taken by Federal Reserve notes I hope to clear the ground in advance by saying no adverse criticism of the Federal Reserve Banking System is contemplated.

I was called upon to criticise the bill when it was before the Senate in 1913 and I think the facts justify me in now taking up the same matter after much currency history has been written. Conceding a central banking system is necessary in modern times for a great country and admitting its many advantages, yet, unless profound changes are made to fit theory to facts the Federal Reserve banks will become a menace and, whether or not my opinion is worth considering, the reader must decide.

I doubt if a single member of Congress who favored the bill when it passed the Senate in 1913 had the remotest idea that it would make the great changes in our theory of money and in its circulation we now discover to be the case.

In the six year period of Federal Reserve banking, from 1915 to the close of 1920, more than three and one-half billion dollars was added to the stock of actual cash in circulation and

image

practically all the gold certificates were retired and cancelled.

To get a picture in the mind of the growth of money in our country it is best to return to 1860 before the Civil War and end in 1920 after the World War.

The total cash in actual use as given in the report of the Comptroller of the Currency was as follows:

1860.....	\$435,000,000	omitting fractions
1870.....	676,000,000	gaining \$241,000,000 during the Civil War period
1880.....	973,000,000	a gain of \$300,000,000 in ten years
1890.....	1429,000,000	\$456,000,000, in ten years
1900.....	2000,000,000	about \$600,000,000 gain in ten years
1910.....	3100,000,000	\$1,100,000,000 gain in ten years
1915.....	3500,000,000	\$400,000,000 gain in five years
1916.....	4024,000,000	about \$500,000,000 gain in one year
1917.....	4763,000,000	more than \$700,000,000 gain in one year
1918.....	5379,000,000	about \$600,000,000 gain in one year
1919.....	5766,000,000	about \$400,000,000 gain in one year
October 25, 1920.....	\$6,087,000,000	about \$300,000,000 gain in one year

In 1916 the gain was in gold and no particular quantity of Federal Reserve notes were issued.

In 1917 a total gain of \$700,000,000, half of which was Federal Reserve notes and half gold.

- 1918 Twelve hundred million Reserve notes were injected and six hundred million gold certificates retired. The war ended this year, and apparently there was no call for more inflation of notes, or for a cancellation of gold certificates.
- 1919 Nine hundred million Federal Bank notes inflation, and five hundred million contraction of gold certificates.
- 1920 Seven hundred million Federal Bank notes inflation and four hundred million of gold certificates taken from circulation.

This table will demonstrate a policy of the Federal Reserve Banks without regard to the World's War, namely, to supply all demands for cash with Federal Reserve notes.

The high point of Federal Note inflation was reached in 1920, or early in 1921, when about three and one half billions were in actual circulation.

Before going into the evil effects of this unparalleled inflation of cash money, with its disastrous rise in speculation on the New York Stock Exchange in commodity markets, in high cost of living, in advances of land value by tens of billions, and high rents, a word must be spoken about the character of Federal Reserve notes.

The reader will naturally ask what difference does it make if Federal Reserve notes are payable

in gold and are a direct obligation of the United States as the law provides.

There is a radical difference, for example, between a government ten dollar note of absolute money and a ten dollar Federal Reserve note.

The government money circulates from hand to hand without cost to any person, and no one has power except Congress to take it from circulation. If you get a government note it is absolute money with no strings tied to it, and if you and nine others should deposit that same bill in a bank and thereby create one hundred dollars of bank check credit, no power could take that money from circulation, and thereby destroy that credit or break the bank.

A Federal Reserve note only gets into circulation because a borrower from a member bank is paying interest at a rate which may change suddenly from five to six or seven per cent.

Federal Reserve notes were cancelled in one year in the unthinkable sum of one billion dollars, and thereby destroyed the foundation credit for five or six billion dollars of bank deposits.

When the Federal Reserve System was first discussed there was expressed a grave doubt if it could pay expenses from its discount business.

Today the situation is entirely reversed as the earnings are now so enormous that several district banks are embarrassed with very great profits and the government received, as its small share, sixty million dollars franchise tax in 1920.

When three billion dollars of Federal Reserve

notes is collecting one hundred and fifty million dollars a year at five per cent, and when another billion of bank reserves are used without cost the enormous earnings are easily accounted for.

Behind this inflation is to be found the fly in the ointment, namely, a new theory put into practice, which is known as the Banker's theory of circulation, namely, money should only be called into circulation by a rate of interest from the business of the country. The Government should keep money at par with gold but supply none of it to general circulation.

The inflation of cash was at its peak about January 1921, that it was a cash and not a credit inflation seems now to be concealed, although much was printed about the unwise inflation of credit before a course of deflation was adopted, and acted upon by the Federal Reserve Board.

The inflation in the United States was in no way different from any similar cash inflation in history. If the cash of a country is suddenly doubled, the purchase power of the dollar is cut in half, although the new dollars are all of gold.

Our rise in prices are directly the result of a cash inflation from 1915 to 1921 with all the evils of such a practice.

When we talk about credit we mean the total of bank deposits payable in cash on demand in any country, and so does any one mean who has any understanding of his subject.

Credit, as I will show, bears a very intimate connection with cash, as close indeed as the

children of a family to the parents that bring them into existence, and therefore the more parent cash dollars in the money population, the more credit children arise as bank deposits.

In the circulation of Federal Reserve notes, an attempt is made to mix credit and cash, as if children and parents were exactly the same thing. Federal Reserve notes were expected to circulate something like bank checks, and to have what is called elasticity, to be inflated and contracted with little or no harm to business or rise of prices, the same as bank checks may inflate or contract. But a natural law says deposits will grow very fast, to five times as many dollars as cash, and new loans will then be made on rising prices with a flimsy security, because such prices will fall as fast as they went up when cash is taken from circulation and cancelled.

According to the bankers' theory gold is an absolute standard measure of value, and when Bryan was a candidate on a silver platform the immorality of a fifty cent dollar compared with a one hundred cent gold dollar was widely advertised.

Now a gold failure is admitted because facts become stubborn things, we did have a fifty cent gold dollar brought about by an inflation of Federal Reserve notes, only the dollar went lower than fifty cents.

If experience and stubborn facts finally overthrow the Gold God of Finance as an absolute standard of value, we may then be allowed to

discuss a natural law which does create dollars of measured value.

When the cry of inflation spread over the country in 1920 brought about by the sudden rise in cost of living, the natural law then made the people aware of its existence. The public cry came like a child having its fingers burnt by its first experience with fire; a natural law was increasing the cost of living by leaps and bounds because the cost of living and the number of cash dollars in actual circulation must balance in prices, and any change in cash money is instantly reflected in the cost or standard of living.

If, for example, when cash is fixed in quantity, and machinery will cheapen goods so that one dollar will buy more goods year by year, that dollar is buying a higher standard of living at lower prices with the same quantity of cash. But, on the contrary, if dollars are rapidly inflated and prices rise, the new dollar will measure less living than the old, because wages cannot take up the rise of prices, and a lower standard of living results, with money idle, and with millions unemployed.

The quantity of cash in actual circulation is based on the cost of living because a natural law will not permit cash to do more than supply the living and pay its cost.

Credit money was created by laws of evolution to carry on the work of advancing the people to higher standards, thereby confining the credit circulation to do all buying outside the cost of living.

Credit dollars are like the children of one generation upon whom rests the burden of carrying forward all the advances made by their parents, who in turn transmit gains to another generation of credit children. Such gains are what we call profit.

CHAPTER 2

CURRENCY UNDER NATURAL LAW

It is a banker's theory, that a mysterious power called "the law of supply and demand" will solve all problems of prices, wages, profits, and the cost of living, mere money having no important part to play in prices, wages, profits, or cost of living. Federal Reserve notes are expected to be called into circulation after the law of supply and demand has advanced prices, thus calling for greater supplies of money,—a very pretty theory that won't work.

To avoid foolish mistakes let us first examine this universal "demand and supply," and discover what it really does accomplish from a scientific standpoint.

Demand and supply is only another name for action and reaction under natural physical law. Under laws of gravity, action and reaction always keep bodies supplied with weight in proportion to the weight of the earth to which the bodies belong.

Demand and supply is similar to gravity in its action on goods by keeping goods supplied with prices in proportion to the whole body of goods to which prices belong. Prices of goods change while weights are fixed. Such changes come because the forces acting on goods change, or

because the goods change while the force remains constant. All changes in the action of cash are brought by credit and interest paid.

The force behind supply and demand is found in the energy of each dollar that causes labor to work for a living and sends goods to market.

It is not true to say that prices rise or fall from demand and supply, that demand and supply is a cause of change in price levels.

Any price at any time is a mere balance of one price in relation to all other prices, a balance in total demand and supply. The force residing in money, acting upon labor and upon goods in the market, is the cause of every change in price.

The cause of a rise or fall in prices is the problem we are called upon to solve and the mere demand and supply that keeps prices in equal relation to the whole market has nothing to do with the main question.

It is a fact of very common experience that an inflation of cash will, for a short time, greatly stimulate the production of goods, whereas the mere rise in price from the same inflation would curtail the market and act the other way.

What causes the temporary stimulation of employment during a period of cash inflation? This question leads directly to the natural law which governs the circulation of cash, and at the same time creates credit money.

When there is a rise in price of goods over the market from an inflation of cash, that rise in itself states the natural law which in limiting the

quantity of cash to the single function of buying a fixed quantity of goods, forces prices to change when more money is acting as the price fixer for the same quantity of goods. When, therefore, a quantity of goods remains at the former level and the quantity of cash is increased the market price for goods in stock will immediately advance to a new level to balance more cash. The goods on sale at the old level had a profit at the old price, and the new price then becomes a new paper profit on all goods in stock, and orders will then begin to multiply for more goods on account of the paper profits upon the stocks on hand.

If the wages for one day amount to one hundred million dollars, which goes into the hands of forty million laborers, only one day's supply of cost of living is then in circulation.

If it was possible to have labor spend all its wages for its living each day, and then collect the same one hundred million dollars from merchants the same day, and return it to where it could pay the same labor the following day, then the natural law would establish the quantity of cash at the small sum of one hundred million dollars, with wages and prices as great as now, when more than five billion dollars of cash is being used for the same purpose.

It is not possible to return the hundred million cash back to circulation the same day it is paid to labor. The natural law, on the other hand, will not substitute credit and give cash the time

it would take in returning to pay wages. To force cash to do its work of paying wages and buying the living and *not consume time*, but be ready instantly to pay costs of living each day, a quantity of cash equal to about fifty days' cost of living must be provided.

Under the natural law cash cannot take time; it must be on hand in every market ready to instantly release one hundred million every day to pay the cost of living, and pay wages equal to that cost of living.

The natural law under which a fixed quantity of cash acts instantly without time to fix prices and wages seems to be the same natural law by which gravity fixes weights without regard to time. It is a natural law of potential energy, holding forces and matter in equal relation when compared with laws of kinetic energy, by which forces change and matter changes in different periods of time.

There is another very important public question settled by not permitting cash to consume time. I refer to interest paid upon money.

Dollars of cash do not originate, collect or receive a single dollar of interest from the general fund. All interest is collected by credit money. The law limiting cash to the cost of living and balancing lowest wages with that same cost, makes the labor question a very difficult question to explain, because wages under the cash circulation alone can never rise above the cost of living. Fixing such narrow limits for the

circulation of cash leaves an enormously wide field of activity for credit which is given the time required to create development and growth for the progress of mankind.

Now, anyone knows that several million laborers do get more cash in wages than cost of living, and set aside a surplus that appears to come to them as cash, and it seems false to insist that cash alone may hold the wage rate at the cost of living. But, if the surplus of a wage earner above his living is followed, it will be found going to a bank where it becomes a deposit and becomes a part of credit money to that extent.

To return to the Federal Reserve note inflation, and observe how it had to operate under the natural law, limiting cash to a sole function of holding prices and wages down to the cost of living:

In 1890, for example, the total cash was two billion dollars, and was balanced by value of goods in stock to supply that much living, this two billion cash and equal value of goods turned over six times that year in a twelve billion dollar business from cash alone, a twelve billion dollar cost of living in 1890. Now, suddenly inflate this two billion cash to four billion and prices of goods on hand will advance and give off a paper profit of enormous volume from goods at low cost and high selling price, and profit will turn over six times a year from the inflated cash circulation.

There would be no buyers at the higher level, to pay the profits did not banks advance credit, and did not this profit cause a mad rush among all merchants and manufacturers to get more goods in stock before higher wages sent up costs.

The true explanation of how and why prices of goods advance suddenly is found in the natural law for cash and its inflation, and the reverse follows when the quantity of cash is contracted. Prices fall, the goods on hand show a loss, and orders for goods are cancelled by every merchant in the land.

In the late inflation—1915 to 1921—five hundred million dollars of Federal Reserve notes was injected into the cash circulation on an average each year for a period of six years, resulting in wild speculation in every department. Prices had to rise in waves, one following another, and production was fed by paper profits as fast as the greater supply of cash could turn over.

Purchase power advanced from an enormous demand for labor, but more wages and a rise in wages could not but delay the catastrophe as goods piled up from speculation, and, as the New York Stock Exchange had the greatest speculative boom in its history. Without the deflation of 1921, a reaction was inevitable, but deflation made a calamity by a quick fall of prices below what would otherwise have been the case, and has made recovery a question of grave doubt.

This inflation of cash had its natural effect of a five or six fold greater inflation of bank de-

posits and loans, stimulating banks everywhere to grab the same profits by putting out credit for every conceivable purpose on a rising market. Deflation came to banks; deposits began rapidly to disappear as losses replaced gains and as money was cancelled.

To keep from failing banks were forced to demand payment of loans to offset loss of deposits, and the best loans and the best customers were able to liquidate, but the banks were weaker rather than stronger on account of this forced liquidation, and also had to suffer great losses of their own.

CHAPTER 3

BANKING AND CREDIT CURRENCY

Banking is a very simple business because it deals in units of money and is what may be called a cash business. In the daily transactions of a commercial bank it handles a small amount of cash in proportion to its greater sum in checks, the cash acting as a medium to keep checks at par with cash.

For example, a new bank is organized in a small manufacturing town and its stockholders supply one hundred thousand dollars in actual cash, besides the plant. This cash will be loaned quickly and return with other cash; all the spare cash of the town will mobilize in the bank.

There is a fifty day supply of cash distributed all over the country to buy the living, and each community will have its proportional part. Only one day's supply of cash will be at work with forty-nine days' supply taking its turn in the market where no time is allowed cash to circulate. This money, awaiting its turn to pay cost of living, and not in the pockets of the people, gets into banks and becomes the cash reserve, with which credit many times greater is put into circulation, by individual checks payable in cash on demand.

The new bank will discover that its one hundred thousand in cash will practically remain until its deposit and loan account reach one million dollars, or until the cash has been loaned ten times. At about this limit the greater check circulation will be taking a large share of this spare cash each day, and return it, again which fact requires a bank to keep a certain cash reserve on hand in proportion to total deposits.

By the illustration of starting a bank the fact is clearly demonstrated that credit consisting of demand deposits, is automatically limited in quantity by the drastic limit in the quantity of cash.

If, for example, the total cash in the United States was two billion dollars, in round numbers, in 1890, this total cash set a limit to total deposits in all banks, at a sum of about five times the cash, or ten billion dollars deposits for that year, 1890. This five time multiplication depends upon the character of banking and upon the cash held as reserve, and with lower reserve deposits for the whole country, it may rise to six times the total cash.

When in 1920 total cash rose to six billion dollars the upper limit to total demand deposits was thirty-six billion, unless credit was unwisely extended.

When cash is taken from circulation, bank deposits for the whole country must disappear to that extent. For example, when one billion of Federal Reserve notes was cancelled in 1921,

there was a necessary loss of about six billion bank deposits, with a corresponding demand from bankers upon customers to pay six billion dollars of loans to keep the banks from failing.

The calamity that followed the contraction of cash demonstrates as nothing else could demonstrate the fatal delusion nourished by the Federal Reserve Bank system that cash and credit circulations may be mixed.

The banking of any country should be confined strictly to credit money which may be inflated without disturbing prices, and no bank should be given power over the primary cash circulation.

We are now confronted by a drastic period of hard times and business failure, with no one able to guess the future and no one able to predict the value of a dollar of cash, which fluctuates wildly under the inflation and contraction of Federal Reserve notes in and out of circulation.

We arrive, now, at another fundamental question for scientific solution. How are "Hard Times" produced, and if we learn that lesson, can we then produce "Good Times" and keep them good? "Hard Times" continue with a great many people all the time, and once in so many years a special calamity cuts into the people who before were immune, and makes another section suffer that had enjoyed good times, as a habit from long association with prosperity.

The public cry of hard times, refers to periods which are brought about by a sudden failure in

profits of industry, which failure of profits will arise with or without an inflation or contraction of credit.

Hard Times, from a scientific standpoint, is a species of disease of the "social organism," without regard to classes of rich or poor, leaving many exempt while others suffer.

The disease we call "Hard Times" has a close connection with profits, because all profits originate from the circulation of cash. For some reason, to be later explained, the total fund of profit given to us from our industry, fails to go round, and is short in quantity, and that short quantity seems badly distributed, failing to stimulate as much business as the country should enjoy.

When it is stated that failing profits make hard times, that is a self-evident fact, because every man in business bumps against it.

I know the socialist theory, and anarchists hold that profit itself is the cause of hard times. False theories usually reverse the facts, and get the cart before the horse.

When a bank, like the one used in the illustration, is able to build up a million dollar deposit account and keep the same one hundred thousand dollars in cash, we find the foundation for a very thrilling essay on good times. The growth of bank deposits is wholly derived from profits above all costs of living, and, somehow, as bank deposits reach their limit, and loans cannot be paid, the fountains of creation begin

to dry up, and to that extent the volume of business is curtailed.

There is one very great question about bank deposits, which to answer correctly is to solve all the riddles of the business and labor world, as well as the trials and tribulations of the whole world resulting from the great war.

The question is easily put, although I never have seen it in print, for we have a bank credit of six times as much ready money as cash, and this money is provided for construction to develop the wealth of a country, did we but allow it to circulate freely under natural law.

No matter how much deposit money we use in any one year, building roads, factories, railroads, creating a new telephone industry, a new moving picture industry the automobile industry, we never thereby diminish this enormous volume of credit money. This well of prosperity dries up from some failure on our part. We fail to circulate this credit money.

The total of bank deposits is always practically at the same level, although we take away billions for new investments. It is a spring of perpetual youth, the fountain of all life and activity in the Social Organism, by which we rise from one step above the savage to other steps in "climbing toward a god that retreats before us."

To answer is to solve the riddle of the Sphinx and destroy the Dragons of poverty and suffering and crime that spring from our lack of mar-

kets, and from lack of profitable employment for labor.

A man like Henry Ford can build up from nothing and create in seventeen years an entirely new industry, pay highest wages, sell in competition at lowest prices, and acquire more wealth for himself than any man in history ever acquired in the same time. Here appears a wonderful example of just how the circulation of credit money works its miracles, although our human law may distribute badly by giving so much to a single individual.

In the example of the Automobile industry, being self-created, we find credit money exchanging into cash and back again into credit, doing all this new work without interfering with any other work, or taking any other profit, but, on the other hand, adding its total wage and earnings to the total wealth. How was it accomplished?

The plain facts regarding Ford are easily stated. He sold Automobiles under a great demand to owners of bank deposits at a very high rate of profit. The bank deposit was converted into cash for payrolls and material, to build, extend and enlarge his plants, but in so doing this industry interfered with no other business, took no cash out of its regular channels, and did not diminish bank deposits, but increased them.

Ford's business was a self sustaining unit under the natural law by which bank credit circulates to do its perfect work, as was done in this case. But Ford had to generate his own

plant profit out of the consumers of his product, and every industry must likewise generate its own profit, and be equally a self sustaining unit and gather in its own profit money.

Why do profits fail after an industry reaches full growth,—a failure which may later engulf Mr. Ford? The failure of profit is the main problem of the civilized world.

CHAPTER 4

PROFIT UNDER NATURAL LAW

Ask any banker how money originates, with which railways, factories, towns, cities, farms and roads are built, and he will tell you "the only real source of such money is saved from wages, for at last the circulation of earned money must come from labor, and debts give time for such accumulations to grow." You point out the rottenness of any such theory by the fact that practically every fortune in the world has its source in buying at one price and selling at a higher price, but facts will not convince him.

As foolish and baseless as this saving theory, proves to be, in the light of every known fact it is held tenaciously by nearly all writers on the subject, because it is founded upon another theory equally false. It is a peculiarity of what is called "Political Economy," that it is built up from numerous theories, none of which explain any facts, and as one theory fails another theory is invented into a chain, so that one is expected to show every theory to be false, before any is expected to go down.

Next ask any banker what trade consists of, and what money has to do with trade, and he will doubtless answer, "Trade, in its last analy-

sis, is an exchange of goods for goods without profit, while money is a mere tool or convenience in keeping accounts for an equal exchange of goods with nothing left over."

Bewildered by such childish nonsense, you say, if trade is an exchange of goods for goods, then of course each family keeps an assortment of goods on hand it does not need, and carts them to some general market to exchange for goods it needs.

Why do we find theories generally accepted by intelligent men in every community so utterly devoid of all truth as the trade, money and savings theories linked together, are shown to be. God is surely merciful and generous to permit such stupidity to live and propagate its lies.

"No, No," the banker will say angrily, "any fool knows a man uses money, but that does not change the principle; any child knows that money buys goods." A child of five years knows when it spends five cents for candy a miracle is performed before its eyes, as if, at that instant, candy was created by an act of God for the pleasure of the child, and it has no theory about it. The fact satisfies the child.

If trade was an exchange of goods for goods in its final accounting, then by any scientific reasoning such trade would require each person to have goods on hand to exchange by barter for other goods; and there is no escape from this conclusion.

All accounting through money and banking, as wonderful as it is, comes into existence to separate a money profit created by natural law from the cost of goods in the market. Money is not a man-made creature of law, or Congress or Parliament; it is one of the greatest miracles of Evolution as directed by Supreme Intelligence.

Each and every dollar of cash employing labor is a unit of "biotic energy," or living force in the social organism, just like units of living energy in the cells of our blood, but money is more wonderful and more complex. The energy of money by which labor is directed to carry forward a Divine plan of evolution, lifts up the savage step by step toward a Kingdom on earth where God resides.

Goods must sell for more money than the total cost for labor and capital, or there will be no trade, and mankind must return to barbarism.

The bankers' theory of money, and trade with no profit, is the one Lenine has tried out with such disastrous results, the tragedy of Russia, and the despair of the world.

The same theories are held by the father of Political Economy, Adam Smith, is his "Wealth of Nations;" they are also the foundation of Free Trade, of the so-called Classical School of Great Britain, dignified by calling it a Science (?) of "Echo-Nomics," if you will pardon the spelling.

By this conglomeration of baseless theories Socialists, Anarchists, and Communists hold that labor should have all wealth, that profit

only arises from cunning, extortion, monopoly or by theft, creating a capitalist class, among whom bankers lead in robbing the poor.

There can be no production worthy of the name and no trade except among savage tribes, unless goods sell in money for a sum above all costs. Where this not the fact our banking system could not survive a month, nor our railways or factories continue, and merchants could not keep on hand a stock of goods for sale.

False theories hold fast in spite of all facts, because the nature and circulation of two distinct quantities of money, cash and credit, were never worked out from the easily discovered facts in the case. The bankers' or classical theory of money made it impossible to conceive how trade for goods could take place and leave a margin of money above all costs. But the Divine Intelligence that plans the processes of Evolution did so conceive how a margin of profit in money would arise from every sale of goods, and did provide a natural law to produce just that result, allowing great profits above all costs.

Natural trade creates a profit in money for goods above all costs, cost of labor and cost of capital. It remains to prove of what that money profit consists, and how it is finally balanced in the whole system of accounting.

Profits are not paid out of wages nor out of the maintenance of capital; they are paid out of the body of capital accumulated from the past.

Money is a miracle worker; it creates one wonder after another in the rise of nations, and in the markets and accumulation of wealth. Money will lift up a ditcher, set him in an automobile and make him a king or prince of oil, steel or other industry.

How can money pay something above the cost of labor, and cost of maintaining capital which we call a profit? It does so by the intimate connection between cash and credit. Profits are finally paid with credit money, balanced by an equal slice of the accumulated wealth each year going to new owners.

In addition to the goods we produce and consume in living, and in maintaining capital, in roads, railroads, factories, farms and telephones, there is always on hand an enormous supply of wealth accumulated from the past, which comes to each generation as a gift from the labor and capital of a former generation.

There is about three hundred billion dollars worth of past accumulation given to this generation as a credit, as an inheritance from the past. The operation of cash and credit together takes a slice of this capital each year and converts it into profit money, and creates thereby what is known as the distribution of wealth to private owners. But, as simple as the foregoing statement appears on its face, the manner by which the natural law measures out a certain fixed proportion of past wealth each year to become present profit, is far from being simple.

Natural law separates cost money from profit money by having two separate quantities of money, each confined to its own channels, and each doing its own specific work without invading the other's territory.

This separation of two kinds of money, having separate functions, may be made clear by comparison to a system in our own organism, in our own bodies. The circulation of cash and distribution of goods constitute the blood stream of the Social Organism, and just as living cells in our blood manufacture the raw material taken into the stomach as food, and just as the arteries and capillaries distribute this living to each minute cell in the body, so in the social system cash dollars manufacture food into energy and raw material into the tissues we call wealth. In doing its vital work cash is confined to channels as completely as the blood stream is confined to arteries and veins. The cellular tissue of the body has its fluid that surrounds all the blood vessels, and interchanges with the blood which compares with the credit circulation performing a like function in the social organism.

This illustration may appear to show up a laboring man, a professor or a scientist as being a mere colloidal cell in an organism acting under the "biotic energy" of money. But man himself, outside his mere work, to carry out a Divine Plan in the progress of humanity, may become immortal by learning to direct forces and carry out plans and processes of evolution to speed the day when a mortal god

is to occupy the developed civilization of the earth.

We are at the parting of the ways in the circulation of money, at its greatest complexity, and it remains to explain how money measures a profit upon industry each year and compels capital to pay that profit.

The search is at the place where it may be expected to trap and ensnare the labor question, and to cover the cause of world-wide idleness, poverty and suffering.

The press is howling about high wages, which it claims is destroying the profits of industry and insists on drastic cuts to give a margin of profit and thereby help to restore a sick business into a more healthy condition.

The press is howling for a reduction in freight rates to reduce costs and give a margin of profit in a market where profits have disappeared. It should be self-evident that wages and freight costs are not directly connected with profits, and the attempt to thus take profits from the cost of living must fail because it would reduce the standard of living and thereby reduce total profits.

A simple illustration will show clearly just how the natural law measures out profits above labor and capital costs. Oil wells are familiar things that bring quick fortunes to lucky owners. One oil well in Mexico is said to have paid fifty million dollars profit.

Take the entire oil field into view with its thousands of wells spouting oil, and the great

majority give a small yield at the expense of pumping.

No well is producing oil unless there is a production above cost, unless more barrels are produced than will pay all cost of labor and capital.

What is true of oil fields is true of all mining, lumbering, manufacturing, selling, banking, shipping, and farming. This is to say that the natural law measures profit money by the excess in fertility of soil, or natural resource above the sum, required to pay cost of labor and capital.

In building cities this excess of fertility grows a twenty story structure on a fertile lot, as well as small buildings in the outskirts where land is not so fertile, and our trouble arises from failing to get the activity in building which this fertility of soil and profit would create.

The first objection to enter the mind will be,—“Suppose we grant that natural law measures out a money profit equal to the fertility of soil above a living, does not the trouble arise from this profit being too meagre to employ all our labor and capital?” By no means,—it should be so plain a blind man could see it, that all production is carried on where the soil gives a margin of fertility and on this account the total annual quantity of profit should be enormous.

But profits do fail to go round. The business world gets but a small share of the total profit allotted to it by natural law. What causes this loss of profit and thereby cripples the general prosperity of a country?

CHAPTER 5

THE DISEASE THAT KILLS PROFIT

The United States, as a nation of people, is something quite distinct from the political body we are taught in schools and colleges to believe.

Every institution in our nation has come into existence without the devising or planning of any man or group of men. Laws of Congress do not and cannot create any part of this growth. The great railway systems, farms, towns, cities, inventions, churches, schools, in whole and in detail, come into existence on account of natural laws, the same laws which in lower species developed mountains and soil, rivers and lakes, together with the entire living world including man.

Our nation is a social organism, a living species higher than the animal, higher than man—to develop a mortal god from culture happiness and wealth who is to finally inhabit an heavenly earth.

We have no super-men,—millionaires, who deserve credit for creating any great industry like railways, factories, oil, steel, telephones and the like. Credit is given to prominent rich men for great accomplishment to satisfy the childish minds of men as fairy tales satisfy the

imagination of children in our modern miracle working times.

Congress cannot create prosperity; it cannot make a people moral any more than it can create a mind, or create good times any more than create health.

The body politic is developing a higher species than the human animal, a spiritual and intelligent creature who shall become like a mortal god, who knows what is best to know, and enjoys all that is to be enjoyed on earth. The joy-killing reformers are works of the devil; to hamper the good, while seeking to save the ones past all redemption, is bad theory.

The United States with its population, wealth, culture and natural resources, is like another living organism, subject to disease from invading microbes, and it advances from lower to higher levels only as it overcomes disease and its parasites, and is made immune to them.

Congress and the law making power has a very important function to perform in chasing the disease breeding parasites out of profitable occupations to allow them to find useful work.

The diseases that afflict the social organism are not of the kind set out in the Bible, are not covered by the Ten Commandments, or by the Laws of the Prophets. The diseases are not moral, nor are they particularly connected with crime, poverty and vices, which are symptoms only.

Disease in the body politic is a fearfully material parasite problem, but on account of the parasite being so plainly visible, we have a great advantage in finding parasites and eliminating them over the micro-organisms that cause bodily human ailments.

The "Uplifters" and "Joy Killers," instead of being any help in curing the ills of the whole people, are themselves, in most cases, a particularly pernicious breed of tantalizing parasites, which we must destroy after more important ills are on the way toward being cured.

The whole trouble in our industrial and social world is a parasite disease-breeding trouble, but not very difficult to diagnose and cure.

When the fact was mentioned that all gains and accumulations of wealth were not savings from wages, but were made by selling goods and capital at prices above cost, no mention was made of great fortunes that arise in the value of land, a rise of tens of billions of dollars in our country.

This subject was then omitted, because there is no labor or capital cost for land. Natural laws which circulate money cannot confer a value on land, and when such value is expressed in dollars, it then becomes a cause of disease—parasites, with which the body politic is afflicted,

In the human body disease,—parasites—perform no work for the organism, but fasten upon some of the fat or other tissue in order to grow and propagate a parasite race and kill the organism.

There are such parasite invaders of the social organism which change profit dollars into disease breeding dollars, and also engage in destroying healthy living tissue, as all disease germs are wont to do.

In the vociferous clamor about high wages, high prices and high costs, why was scarcely a word said about a cost for land destroying the margin of profit, and why was so much emphasis put upon cost of labor and building material?

Why has no one taken up a cost that is everywhere visible, a cost that is nowhere justified, amounting to tens of billions of dollars?

One man, however, deserves credit for discovering the hiding place of the parasite of a world disease, of poverty, unemployment and lack of markets.

I refer to a great man, Henry George, and his great book, "Progress and Poverty," for he did discover that the main trouble arose from an increase in value of land, but he was misled by accepting classical theories of political economy and his remedy "Single Tax" is futile. It should be almost self-evident that every dollar cost for land represents a dollar of profit above the margin of fertility. The value of land consists of profit dollars above a margin of fertility or cost of living changed into a cost dollars for the land.

The press of the country, and particularly in New York City, entered a campaign to arouse the public on the shortage of houses, and prose-

cutions began of labor leaders and merchants for conspiring to raise building costs from high labor and material prices. Men were given jail sentences, and fines were imposed for so increasing the cost of building.

During this noise, did anyone call attention to the fact that the cost of land was almost the sole cause for the failure of building on the most enormous scale? Not that any one could notice it.

The fertility of soil in cities promotes the growth of buildings, because each building would, under natural law, sell for a profit above its cost of labor equal to this fertility above cost.

Building profit should be in proportion to building cost; hence, the inducement to build million dollar structures would be much greater than ten thousand dollar ones, because the profit from the sale would be correspondingly greater. But, as the land cost can rise and absorb all of the selling price above cost, before the foundation may be laid, such a loss of profit virtually kills the building industry unless the owner builds, or unless building occurs during a rise in land values, giving a profit to a building speculator.

From what has been said about the value or cost of land, let it not be inferred that private property in land should be abolished, or that any force upon owners or change in land owning is necessary or desirable.

What need be done is simply to allow cash and credit money to do the work designed to do, and

allow land owners to shift for themselves like other people, but yet retain the advantage they enjoy of building upon and improving their lands.

The money cost of land consists of a payment in advance during fifteen or more future years of the excess from fertility above labor and capital cost, thus changing profits for fifteen years into loss of profits in that sum to create what we call "land value."

When a land-owner demands fifteen or more times the future fertility in present money, the natural law steps in to protect labor and capital by refusing to permit money to buy land, and by refusing to circulate money invested in land.

Land cannot have a cost in money that represents energy; money cannot pay today something the future will bring forth. But you will reply,—
"I may buy land with money any day, billions of dollars have been so spent, natural law or no natural law."

Appearances are deceiving, the natural law is not set aside; money is only promised to be paid for land at some future date by long time debts.

Debts could not be thus created but for the fact that credit money consists of an enormous quantity, and circulates or turns over only once a year, and debts are merely a shift in ownership of wealth, but they destroy the turn-over in credit by promising to return money that cannot be returned.

The debt absorbs the profit dollars from fertility above the living of the people, and here we discover at last the parasite that creates the fatal diseases of our civilization.

Under a natural circulation of cash and credit money, profit would be so great that the market would pay a profitable price for all goods that labor and machinery could send to market. But when labor is plentiful and cheap, and when a cost of land destroys the building business, the market is glutted with commodities at all times and we seek foreign markets to get a margin of profit.

It is utterly impossible to supply the natural demand from the people both for a living and for wealth combined if profits are not destroyed. The labor that now gluts markets with goods is expected to be at work in building, which would increase wealth and capital, and there is an insatiable demand for wealth above the power of labor to satisfy.

Money keeps a daily account and a daily balance of all transactions in every market, and this balance leaves no remainder to accumulate as debt.

When you stop to think of it, how utterly absurd it is to expect to pay land value debts in five, ten or thirty years in the future. If such a proceeding was possible, we would now be paying the debts handed down to us from five, ten and thirty years in the past, and would make no new debts.

The promise to pay debts is such a miserable lie that it should be abolished for that reason alone, but add to it all the misery debt causes in the world and it has no defense.

But how can debt be abolished, although it is admitted the natural law will never permit payment? Is it proposed to force debts to become a part of the property in which they hold an equity?

Debt is but a shift in ownership and a claim upon the value of capital, and must be so recognized. but there can be no forcible liquidation to clear capital of its debts.

Under natural law capital should be as liquid as goods; it should sell for money at a fixed price at any time, and a supply of credit money is provided for that purpose. But when legislation permitted capital value to be classified into dollars that fluctuated from being entirely worthless to ten or more times above par value, then credit money could not perform its natural functions.

You may recall the State Bank Currency in the crash of 1857, when State banks put out money under different laws, and when a daily paper, a Bank Detector, was necessary to learn what State money became worthless and what money retained value, and how much it was worth.

Capital values are in just that "State Money" situation. We get hourly quotations over the country to advise investors how much their

money is worth in thousands of corporations quoted on the New York City and other Stock Exchanges.

This practice is defended by resorting to that fraud theory called the "law of supply and demand," contending that a security market is necessary to establish the true value of capital from buyers and sellers in a cash market.

But capital is not subject to supply and demand; it is not consumed and reproduced in quantities, it does not move to markets where prices are high and avoid markets where prices are low, like goods.

Under the natural order, capital should have a fixed and stable value, based upon its earning the standard rate of interest.

Suppose banks were permitted to give preferred liens upon its capital to the first depositors, second liens to another class; third liens to another. In that event the depositor would never know how much money he had in bank, and must seek a deposit exchange, where buyers and sellers of deposits would speculate and fix prices.

The natural circulation of money taking a slice of total wealth each year to pay profits, would thereby secure just distribution of wealth, to all the people, but when profits are changed into land costs, wealth fails to be distributed, and must concentrate to a millionaire class.

The value of capital is made fluctuating by its very restricted market on Stock Exchanges, and

it must there concentrate to preferred creditors, and to those who finance corporations with various classes of securities, and who reorganize bankrupt ones, when debts cannot be paid.

The remedy must be such as will make capital liquid, at least in so far as the security given to banks by borrowers is concerned.

Forty billion dollars in bank deposits in the United States are kept liquid and at par in thirty thousand banks over the country by a small daily exchange for cash as little as three per cent of cash compared to deposits.

The New York Stock Exchange is the great market to make securities liquid and sell for cash, but it has no money provided for that purpose, except the margin money of gamblers and speculators which is lost in the rise and fall of prices during periods of speculation.

No banker will deny the fact that lending money to buy land, means that such money will never be paid, and that it must end the circulation of credit and wreck banks, as was the case in 1857, when real estate loans were so disastrous.

On the other hand, there is scarcely a limit to the sum that may be loaned for capital construction upon fertile land, if that sum does not exceed the cost of building, because the income as rent would provide a revolving fund to turn over the whole cost in periods of ten or fifteen years.

In making capital liquid there should be no impossible attempt made to pay the principal,

as if it was a loan or future debt. Banks in advancing building cost would merely buy capital securities, and provide a suitable reserve, to keep them payable on demand, and then sell again, keeping such capital alive and liquid as long as its dividends were being earned.

Making securities liquid by supplying a reserve to pay them on demand and sell again to replenish the reserve is quite simple; there is a natural law of mortality for capital, which limits the sum that would be redeemed in cash, each year, like the mortality of bank checks consuming cash.

This is the end of the road and further inquiry relates to how Federal Reserve banks can correct faults and greatly increase their usefulness, for the continuous and permanent prosperity of our country.

CHAPTER 6

THE FEDERAL RESERVE SYSTEM

To my way of thinking, the twelve Federal Reserve Banks should be strictly capital banks and should deal primarily in keeping the capital securities of all banks liquid, and it should have no call to rediscount merchant bills.

Calling the system a central bank for convenience, it should not be permitted to issue circulating notes, and its earnings should mainly arise from capital securities and not from commerce. The fault in the law for a central bank arises from a vicious theory that safe banking has no connection with capital costs of construction, which private investment should supply. The fact that banks must loan deposits to make a profit makes it advisable of course that loans should be as liquid as deposits. A bank must be able to pay depositors on demand, and the check circulation from commerce alone makes such a small demand upon total deposits that a large proportion is from necessity involved in capital loans.

The loan account of every bank, owing to the growing accumularion of debts is never liquid and it finally grows more and more rigid from cost of land tying up commercial credit and bringing about what we call a panic.

Banks soon discover that their loan account may become a fixed investment in business of customers, and in that way credit is tied up and only a small part of deposits is liquidable to give credit to new business. The old customers of a bank soon acquire all its credit and borrow all its deposits and the bank finds its credit invested in frozen capital.

If this was not the case the commercial discounts of a bank would never exceed one fourth of the deposit account and that fourth should turn over in new loans six times a year. Three-fourths of total deposits are expected to be used by capital, and would be so used if they were not tied up by debts based upon land values.

The unpayable loans creep upon bank's deposits until there is no credit circulation remaining in the whole country, and therefore rediscounts were invented to make commercial credit liquid.

National Banks are supposed to keep liquid assets because loans are made for ninety day periods, and paid to release the credit, but in practice the bulk of deposits are loaned almost perpetually to the same people and renewed every ninety days or six months.

The ideal banking condition would arise if the security for loans consisted of capital paper drawing interest, and payable on demand at Federal Reserve Banks, or Trust Companies, or by Agents of State, or by the United States.

The Federal Reserve Bank should call in its circulating notes and replace them with a fixed quantity of government cash that could not be increased or diminished and thereby raise or lower price levels; if this were accomplished three billion dollars in gold would be released for liquid capital reserves.

The only good purpose gold serves in our currency and capital securities is to hold them down in quantity by the limit in quantity of gold.

With a fixed circulation of government cash the only call for gold to redeem government notes would be for gold used in the arts, and gold used in commerce as a commodity, which would come and go and not be consumed.

The bulk of gold could then become a reserve for converting certain debts into liquid capital securities payable on demand and sold again in the distribution of wealth.

The Federal Reserve Bank should have power to buy or take over capital securities as collateral, and issue a Federal Reserve Security at a lower rate of interest, making such securities payable on demand in credit or cash as the case may be.

No capital security should bear on its face a time of maturity, nor any interest-paying period, if it is to circulate as liquid capital. Capital securities should merely represent the money value of capital, exchangeable for money on demand, and collect interest from the time issued until redeemed, with a proviso that interest on any one thousand dollar, or greater, security would cease after five years.

Rediscounting bills for member banks is not good banking; it is piling new debts upon old ones, especially when member banks ought to have four times as much credit as discounting commercial paper demands. Such rediscounting, now merely leaves more member banks free to change a greater proportion of their deposits into investments.

If the Federal Reserve System could provide securities of capital payable on demand, (and banks require them as collateral from customers) the main banking problems would be solved.

The government should make its national debt liquid and payable on demand by the Federal Reserve System, and provide a gold reserve for that purpose. State and municipal bonds should likewise be made liquid, and supply the required reserve to keep them payable on demand, to be sold again to replenish reserves.

Congress should pass a Federal Incorporation law permitting Corporations to recast their securities, allowing no preferred liens, giving to each owner the same right as any other owner, as if his money was on deposit in a bank when invested in a corporation. Each corporation should keep its own capital liquid—provide its own reserve and its own agent to redeem and sell its securities over and over again, stating no time for paying the principal in the future.

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